FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION-2024 FOR RECRUITMENT

TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT

Roll Number

ACCOUNTANCY AND AUDITING PAPER-I

TIME ALLOWED: THREE HOURS **PART-I(MCQS): MAXIMUM 30 MINUTES**	**PART-I (MCQS) MAXIMUM MARKS = 20** **PART-II MAXIMUM MARKS = 80**

NOTE: (i) **Part-II** is to be attempted on the separate **Answer Book.**

(ii) Attempt **ONLY FOUR** questions from **PART-II. ALL** questions carry **EQUAL** marks.

(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.

(iv) Candidate must write Q. No. in the Answer Book in accordance with Q. No. in the Q. Paper.

(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.

(vi) Extra attempt of any question or any part of the attempted question will not be considered.

OTE: (i) **Part-II** is to be attempted on the separate **Answer Book.**
(ii) Attempt **ONLY FOUR** questions from **PART-II** by selecting **TWO** questions from **EACH SECTION. ALL** questions carry **EQUAL** marks.
(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.
(iv) Write Q. No. in the Answer Book in accordance with Q. No. in the Q.Paper.
(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(vi) Extra attempt of any question or any part of the question will not be considered.
(vii) **Use of Calculator is allowed.**

SECTION – I

Q. 2. The accountant of LRN Co. has prepared the following list of account balances as at 31 December 2014:

Trial balance as at 31 December 2014:

	PKR'000	**PKR'000**
50pesa ordinary shares (fully paid)		450
10% debentures (secured)		200
Retained earnings 1.1.2014		242
General reserve 1.1.2014		171
Land and buildings 1.1.2014 (cost)	430	
Plant and machinery 1.1.2014 (cost)	830	
Accumulated depreciation:		
Buildings 1.1.2014		20
Plant and machinery 1.1.2014		222
Inventory 1.1.2014	190	
Sales		2,695
Purchases	2,152	
Ordinary dividend	15	
Debenture interest	10	
Wages and salaries	254	
Light and heat	31	
Sundry expenses	113	
Suspense account		135
Trade accounts receivable	179	
Trade accounts payable		195
Cash	126	
	4,330	4,330

Notes to trial balance:

(a) Sundry expenses include PKR 9,000 paid in respect of insurance for the year ended 1 September 2015. Light and heat does not include an invoice of PKR 3,000 for electricity for the three months ending 2 January 2015, which was paid in February 2015. Light and heat also include PKR 20,000 relating to salesman's commission.

(b) The suspense account is in respect of the following items:

	PKR'000
Proceeds from share issue of 100,000 ordinary shares	120
Proceeds from sale of plant	300
	480
Less consideration for acquisition of MAY & Co	285
	135

(c) The net assets of Mary & Co were purchased on 3 March 2014. Assets were valued as follows:

	PKR'000
Equity instruments	231
Inventory	34
	265

All the inventory acquired was sold during 2014. The equity instruments were still held by Learning at 31.12.2014. Goodwill has not been impaired in value.

(d) The property was acquired some year ago. The buildings element of the cost was estimated at PKR 100,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 December 2014 the property is to be revalued at PKR 800,000.

(e) The plant which was sold had costs PKR 350,000 and had a net book value of PKR 274,000 as at 1.1.2014. PKR 36,000 depreciation is to be charged on plant and machinery for 2014.

(f) The management wish to provide for:

- Debenture interest due
- A transfer to general reserve of PKR 16,000
- Audit fees of PKR 4,000

(g) Inventory as at 31 December 2014 was valued at PKR 220,000 (at cost)

(h) Tax is to be ignored

(i) Take all depreciation to cost of sales **(20)**

Required:

Prepare the financial statements of LRN Co as at 31 December 2014. You do not need to produce notes to the statements.

Q. 3. **(a)** The objective of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations specifies, amongst other things, accounting for and presentation and disclosure of discontinued operations. **(08)**

Required:

Define a discontinued operation and explain why the disclosure of such information is important to users of financial statements.

(b) RCR Co's sole activity is the operation of hotels all over the world. After a period of declining profitability, Radar's directors made the following decisions during the year ended 31 March 2013:

– it disposed of all of its hotels in country A;
– it refurbished all of its hotels in country B in order to target the holiday and tourism market. The previous target market in country B had been aimed at business clients.

Required: **(6)**

Treating the two decisions separately, explain whether they meet the criteria for being classified as discontinued operations in the financial statements for the year ended 31 March 2013.

(c) At a board meeting on 1 July 2012, PPP Co's directors made the decision to close down one of its factories on 31 March 2013. The factory and its related plant would then be sold.

A formal plan was formulated, and the factory's 250 employees were given three months' notice of redundancy on 1 January 2013. Customers and suppliers were also informed of the closure at this date.

The directors of PPP Co. have provided the following information:

Fifty of the employees would be retrained and deployed to other subsidiaries within the group at a cost of PKR 125,000; the remainder will accept redundancy and be paid an average of PKR 5,000 each.

The factory plant has a carrying amount of PKR 2.2 million but is only expected to sell for PKR 500,000 incurring PKR 50,000 of selling costs; however, the factory itself is expected to sell for a profit of PKR 1.2 million.

The company rents a number of machines under operating leases which have an average of three years to run after 31 March 2013. The present value of these future lease payments (rentals) at 31 March 2013 was PKR 1 million; however, the lessor has said they will accept PKR 850,000 which would be due for payment on 30 April 2013 for their cancellation as at 31 March 2013.

Penalty payments due to non-completion of supply contracts are estimated at PKR 200,000.

Required: **(6**

Explain and quantify how the closure of the factory should be treated in PPP Co's financial statements for the year ended 31 March 2013.

Note: The closure of the factory does not meet the criteria of discontinued operation.

4. On 1 January 2012, VX Co. acquired 90% of the equity share capital of GN Co. in a share exchange in which VX Co. issued two new shares for every three shares it acquired in GN Co. Additionally, on 31 December 2012, VX Co. will pay the shareholders of GN Co. PKR 1.76 per share acquired. VX Co's cost of capital is 10% per annum.
At the date of acquisition, shares in VX Co. and GN Co. had a stock market value of PKR 6.50 and PKR 2.50 each, respectively.

Income statements for the year ended 30 September 2012

	VX CO PKR'000	GN CO PKR'000
Revenue	64,600	38,000
Cost of sales	(51,200)	(26,000)
Gross profit	13,400	12,000
Distribution costs	(1,600)	(1,800)
Administrative expenses	(3,800)	(2,400)
Investment income	600	Nil
Finance costs	(420)	Nil
Profit before tax	8,080	7,800
Income tax expense	(2,800)	(1,600)
Profit for the year	5,280	6,200
Equity as at **1 October 2011**		
Equity shares of PKR 1 each	30,000	10,000
Retained earnings	54,000	35,000

The following information is relevant:

(i) At the date of acquisition, the fair values of GN Co's assets were equal to their carrying amounts with the exception of two items:
- An item of plant had a fair value of PKR 1.8 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
- GN Co. had a contingent liability which VX Co. estimated to have a fair value of PKR 450,000. This has not changed as at 30 September 2012. GN Co. has not incorporated these fair value changes into its financial statements.

(ii) VX Co's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, GN Co's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iii) Sales from VX Co. to GN Co. throughout the year ended 30 September 2012 had consistently been PKR 800,000 per month. VX Co. made a mark-up on cost of 25% on these sales. GN Co. had PKR 1.5 million of these goods in inventory as at 30 September 2012.

(iv) VX Co. investment income is a dividend received from its investment in a 40% owned associate which it has held for several years. The underlying earnings for the associate for the year ended 30 September 2012 were PKR 2 million.

(v) Although GN Co. has been profitable since its acquisition by VX Co, the market for GN Co's products has been badly hit in recent months and VX Co. has calculated that the goodwill has been impaired by PKR 2 million as at 30 September 2012.

Required:

(a) **Calculate the consolidated goodwill at the date of acquisition of Greca.** (6)

(b) **Prepare the consolidated income statement for Viagem for the year ended 30 September 2012.** (14)

Q. 5. (a) The accounting treatment of investment properties is prescribed by IAS 40 Investment Property

Required:

(i) **Define investment property under IAS 40 and explain why its accounting treatment is different from that of owner-occupied property;** (3)

(ii) **Explain how the treatment of an investment property carried under the fair value model differs from an owner-occupied property carried under the revaluation model.** (2)

(b) Sikandar Co. owns the following properties at 1 April 2012:

Property A: An office building used by Sikandar Co. for administrative purposes with a depreciated historical cost of PKR 2 million. At 1 April 2012 it had a remaining life of 20 years. After a reorganization on 1 October 2012, the property was let to a third party and reclassified as an investment property applying Sikandar's policy of the fair value model. An independent valuer assessed the property to have a fair value of PKR 2.3 million at 1 October 2012, which had risen to PKR 2.34 million at 31 March 2013.

Property B: Another office building sub-let to a subsidiary of Sikandar Co. At 1 April 2012, it had a fair value of PKR 1.5 million which had risen to PKR 1.65 million at 31 March 2013.

Required: (5)

Prepare extracts from Sikandar Co's entity statement of profit or loss and other comprehensive income and statement of financial position for the year ended 31 March 2013 in respect of the above properties. In the case of property B only, state how it would be classified in Sikandar Co. consolidated statement of financial position.

Note: Ignore deferred tax.

(c) Sikandar Co's main item of plant is a furnace which was purchased on 1 October 2009. The furnace has two components: the main body (cost PKR 60,000 including the environmental provision – see below) which has a ten-year life, and a replaceable liner (cost PKR 10,000) with a five-year life.

The manufacturing process produces toxic chemicals which pollute the nearby environment. Legislation requires that a clean-up operation must be undertaken by Shawler on 30 September 2019 at the latest. Shawler received a government grant of PKR 12,000 relating to the cost of the main body of the furnace only.

The following are extracts from Shawler's statement of financial position as at 30 September 2011 (two years after the acquisition of the furnace):

	Carrying amount (PKR)
Non-current assets	
Furnace: main body	48,000
replaceable liner	6,000
Current liabilities	
Government grant	1,200
Non-current liabilities	
Government grant	8,400
Environmental provision	18,000 (present value discounted at 8% per annum)

Required:

(i) **Prepare equivalent extracts from Sikandar Co's statement of financial position as at 30 September 2012;** (3)

(ii) **Prepare extracts from Sikandar Co's income statement for the year ended 30 September 2012 relating to the items in the statement of financial position.** (3)

(d) On 1 April 2012, the government introduced further environmental legislation which had the effect of requiring Sikandar Co. to fit anti-pollution filters to its furnace within two years. An environmental consultant has calculated that fitting the filters will reduce Sikandar Co's required environmental costs (and therefore its provision) by 33%. At 30 September 2012 Shawler had not yet fitted the filters.

Required:

Advise Sikandar Co. as to whether they need to provide for the cost of the filters as at 30 September 2012 and whether they should reduce the environmental provision at this date. (4)

SECTION – II

Q. 6. HN is a fitness center, offering 'pay as you go' gym facilities. It has a fully fitted gym with the capacity to accommodate 200 users at one time. It also has 100 car parking spaces and an onsite cafe, both of which are only for customers using the gym. The fitness center has shower facilities for customers and HN provides all customers with a clean towel to use on entry. It is open 360 days a year, from 7.00am until 9.00pm.

Customers pay PKR 8.40 for access to the gym for one hour plus unlimited time in the café. If customers want to use the car park, they have to pay an additional PKR 1 per visit and 80% of visiting customers use the car park. HN has been monitoring the number of customers attending throughout each day for the month of June, which was considered to be an average month, and for which HN was open for 30 days. It has determined that the average number of customers per day is 330 with 40 of these customers attending during the time of 9.00am to 5.00pm .

The total costs of the fitness center for June, excluding the café, have also been recorded and analyzed as follows:

Fixed costs per month = PKR 48,000
Variable cost per customer = PKR 1.20

On average, half of the customers also used the cafe in June, with an average spending per customer of PKR 2.20. Of this spending, 60% related to drinks, which have a profit margin of 60%, and the remainder related to food items, which have a profit margin of 40%. The specific fixed costs associated with running the café are PKR 3,600 for the month.

Creche proposal
After reviewing all of the above information, the manager of HN has put together a proposal to close the café at the fitness center and convert it into a creche for children. This would mean that parents could leave their children in the creche whilst they use the fitness center between the hours of 9.00am and 5.00pm only. The charge for the creche would be PKR 4 per child, per hour.
Initial research suggests that customers have an average of two children each. The creche is expected to attract new customers and increase the average number of customers between 9.00am and 5.00pm by 300%. Only these new customers will use the creche facilities. Car park usage is expected to continue to be 80%. The fixed costs associated with running the creche are estimated to be PKR 8,000 per month, with a variable cost of PKR 0.50 per child, per hour.

Required: (20 marks)

(a) Calculate both the number of customers HN needs to break even and the margin of safety as a percentage for the month of June for:
- **(i) The gym; and** **(5)**
- **(ii) The café.** **(5)**

(b) Explain what each of your calculations in (a) tells Health Nuts about the performance of the gym and the café. **(5)**

(c) Advise Health Nuts, considering both financial and non-financial factors, whether it should replace the café with a crèche. **(5)**

7. Y Co. owns a number of restaurants. It is a well-established company, and its restaurants have gained a favorable reputation for the quality of their meals.

Y Co's restaurants are all set in rural locations, where there is limited competition and this enabled them to develop a loyal customer base. Restaurants design their own menus and décor to fit with the requirements of their local market.

Y Co has been consistently profitable, however as is the case across the restaurant industry, profit margins are quite low and there is still a constant need for Y Co to monitor costs.

One of Y Co's restaurants is located in the small town of Town C. Town C has recently been the location for the filming of a popular television series and visitor numbers to the town have increased significantly as a result. Y Co's restaurant in Town C has noticed a similar increase in customer numbers.

At the start of the current month a new restaurant opened in Town C. The manager of Y Co's restaurant in Town C has expressed concerns about the impact this new competitor will have on their ability to achieve profit targets for the rest of the year.

Budgets for all of Y Co's restaurants are prepared by the head office. At the start of each year, restaurant managers are given an annual budget, which is split into months. At the end of each month, the manager receives a statement comparing actual monthly performance against budget.

The statement for the Town C restaurant for the most recent completed month is as follows:

	Actual	**Budget**	**Variance**
Number of customers	1,800	1,500	
	PKR	**PKR**	**PKR**
Revenue	87,300	75,000	12,300 F
Costs:			
Food and drink	26,100	22,500	3,600 A
Staff wages	38,250	31,500	6,750 A
Heat, light and power	8,100	7,500	600 A
Rent, rates and other overheads	12,600	12,000	600 A
Profit	**2,250**	**1,500**	**750 F**

Notes:

(1) Rent, rates and other overheads are apportioned to its restaurants by Y Co's head office, based on a fixed annual charge.

(2) All other budgeted costs are treated as variable costs, based on the expected number of customers.

Y Co currently adopts an incremental approach to budgeting, with the annual budget figures for each year being based on the previous year's figures. However, a new finance director has recently joined the company, and he has questioned whether this is suitable for all Y Co's restaurants.

The new finance director has also suggested that the company should adopt a more participative approach to budgeting.

Required:

(a) (i) Prepare a flexed budget for the Town C restaurant. **(6)**

(ii) With reference to your answer from part (i), explain the main weaknesses in the current monthly budget statements issued to the restaurants as a basis for managing performance. **(6)**

(b) Discuss whether an incremental approach to budgeting is appropriate for Y Co. **(8)**

Q. 8. BBB Ltd. is involved in a manufacturing business, it uses standard costing to evaluate its performance for every given period. In period A the management of the company is very disappointed in the performance of the company, they have hired a management accountant to help them better understand the actual picture of the business and make decisions.

Following is the budget control report shared with the consultant that is prepared by accounts assistant:

	Budgeted	Actual
Sale (units)	30,000	24,000
Revenue (PKR)	60,000	52,800
Direct material (PKR)	15,000	14,400
Fixed overheads (PKR)	10,000	10,300

Required:

(a) Calculate the following variances used flexed budgets (that is, considering actual activity level):

i. **Total sales variance** **(3)**

ii. **Total direct material variance** **(3)**

iii. **Total fixed overheads variance** **(3)**

(b) The management has provided the following additional data to better understand the variances:

	Budgeted	Actual
Direct labor cost (PKR)	7,500	72,00
Labor hours	6,000	5,600

i. **Calculate labor rate variance.** **(4)**

ii. **Calculate labor efficiency variance.** **(4)**

iii. **Explain why this segregation of total labor variance is important.** **(3)**

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